

## Management Discussion and Analysis

### REVIEW OF PERFORMANCE

In 2001, the Group's turnover has increased 38% year on year to HK\$576,387,000 (2000: HK\$417,247,000). This is driven mainly by outstanding contributions from newly acquired subsidiaries, ADT and DMX Technologies.

During the course of the year, the Group pursued a series of consolidation and rationalization measures and made a provision of HK\$33,880,000 for outstanding receivables. In a competitive struggle to win limited, available businesses during the year, the overall hardware gross margins declined. Together, these factors have contributed to a loss attributable to shareholders of HK\$88,808,000 compared to a profit of HK\$18,213,000 in 2000.

### DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001 (2000: 0.5 Hong Kong cent per share).

### REVIEW OF OPERATIONS

#### Sequent China

Sequent China is the Group's mainframe systems-integration arm, whose principal business is the banking and finance sector in the PRC. Sequent China is also an IBM solutions partner.

In 2001, the division continued to adjust its operations to the transition into a new relationship with IBM since IBM's acquisition of Sequent of the United States in 1999. This transition, which involves new product offerings and operational terms and procedures, has not been an easy one. In order to maintain Sequent China's flexibility and to enable it to re-examine its relationships with IBM, we scaled back the operation last year, pending new product launches by IBM in 2002.

Last year, Sequent China's primary task was to defend its position as a major banking systems integrator in China, while exploring new opportunities for development in other market segments. The division continued to design, implement and provide maintenance services for China

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“Sequent China’s primary task in 2001 was to defend its position as a major banking systems integrator in China.”

Construction Bank (CCB) branches in Jiangsu, Jiangxi, Heilongjiang and Zhejiang. This project includes the provision of IBM Numa-Q mainframe systems, EMC and STK storage systems, and intelligence-management solutions for data centres.

Sequent China also supplied hardware upgrades to its existing customers such as CCB, Bank of China (BOC), the Postal Savings Bureau and other commercial banks. Sequent China also entered into the retail industry, where it is catering to increasingly sophisticated requirements. Technical support and after-sales services also form part of the company’s total solutions.

The year 2001 saw Sequent China achieve a significant milestone in its long-standing working relationship with the Postal Savings Bureau. The three-year Hunan Postal Green Card and City Card Centre reconstruction projects were completed following a successful trial run, during 2001. The timely delivery of these projects not only proved the division’s capabilities in providing comprehensive data-centre solutions, but also marked a recognition of Sequent China as a leading banking systems integrator in China.

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New products and services and new business initiatives were all part of Sequent China's developments in 2001. Last year, Sequent China introduced new HDS and EPI products into China's banking and finance sector by incorporating them in the Postal Green Card solution. In this sector, Sequent China works both as a sales and a servicing partner.

As an IBM solutions partner in China, Sequent China has commenced collaborative marketing efforts for its Numa-Q products and services. Its relationship with IBM is expected to develop further following other joint marketing initiatives in this area.



“While maintaining a reseller relationship with IBM, **Sequent China** is also seeking to broaden its distributor relationship with other **world-renowned vendors**.”

At the same time, Sequent China is identifying additional niche products to complement and strengthen its existing product range, in particular in the areas of software products and data storage. To achieve this, the company has strengthened its relationships with vendors such as EMC, HDS, STK, Computer Associates, EPI and Oracle. The division's business plan for 2002 envisages the company's product diversification from a single IBM Numa-Q line, to a service-driven mode supported by a broader range of world-class vendors. The company also plans to commence the marketing of solid state discs (SSD), a new-generation file-caching product designed to enhance applications contributing to enterprise-grade data-center solutions.

Sequent China is constantly reviewing its position in the industry and market. It is looking into new business synergies through stronger ties with TVH's banking peripheral arm, Topasia, and is examining the merits of further consolidation between these two operations.

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### Topasia

Topasia complements TVH's core competence in China's banking and finance sector with a complete range of automated system solutions and technical services for the finance, securities and telecoms sectors.

Topasia has become the third largest NCR reseller in China, for its dedicated and focused efforts to increase sales of ATM and related equipment to the State Postal Bureau, CCB and other municipal commercial banks.

The division has also successfully entered a new market segment — the rural credit co-operative societies — as one of its major business development achievements. In addition, for the second consecutive year, Topasia won the contract from China Merchants Bank (CMB) to supply nation-wide maintenance services for the bank's cash deposit machines (CDM). The company also clinched another ATM contract from the Anhui province's Postal Bureau.



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Dedicated marketing efforts have jumpstarted **Topasia** into the **third largest NCR reseller** in China.

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Another target set by Topasia for 2001 was to raise the value-added systems-integration and servicing content of its business in a bid to improve overall margins. This strategy has paid off handsomely through contracts from the Shanghai Securities Central Clearing and Registration Corp and Jiangsu Mobile Communications, through a new partnership with EMC, the world's largest independent provider of enterprise intelligence storage systems and software. Topasia also partnered with Avaya in securing a major call-center contract from Shanghai Mobile Communications.

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Topasia is a core business and one of TVH's most promising business lines. To cement its business foundation in China, the company has earmarked investments of US\$2 million in registered capital for the formation of Topasia Technology (Shanghai) Co. Ltd. and US\$1 million for Topasia IT Services (Shanghai) Co. Ltd. to enable them to engage in systems-integration and technical services businesses respectively.

Topasia's main objective for 2002 is to increase profitability. In addition to driving its existing businesses and at the same time controlling costs, the company aims to achieve this target in three ways.

Firstly, the company will strengthen its service provision capabilities and actively expand its servicing network across China. Topasia has already established a servicing network with back-up facilities in over 20 locations in the country. It will capitalize on its early-mover advantage to increase its lead in this business line.

Secondly, the company will extend its collaboration with NCR to tap into new growth areas — those of higher-margin products and services. Topasia aims to leverage NCR's market leadership in data storage to tap the anticipated huge potential for CRM systems in the finance sector following China's accession to the WTO.

Last but not least, operations efficiency also continues to be a priority task for management in 2002. In order to achieve this particular goal, the company aims to obtain ISO9000 accreditation and implement a new contract and expenses management system.

### Topsoft

Business during the year 2001 was very difficult, with market demand for pure e-business applications almost entirely evaporating. Despite these challenges, Topsoft signed more contracts with the HKSAR Government than in previous years and, at the same time, recorded a steadily growing stream of business from its established customer base.

In the public sector, Topsoft currently has three ongoing projects with the Hong Kong Housing Authority. In addition, a new contract was signed finalizing the rollout of the three-year methodology adoption project for the Information Technology Services Department (ITSD) of the HKSAR Government.

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In the banking sector, the company continues to work on a services contract with the Bank of East Asia, effective until mid-2002. It also has a services contract with the Dah Sing Bank to support their payment gateway and shopping-mall applications.

As regards enterprise accounts, Topsoft continues to provide IT support for the pan-Asia marketing campaign management and telesales automation systems for Federal Express, as part of the client's CRM initiatives.

We anticipate that the market will remain slow for the remainder of 2002. At this point, it is very important to nurture the company's existing customer base, as well as explore cost-effective ways of generating new customers.

According to its budget plan, the HKSAR Government will outsource more services in the year 2002, and we foresee that Topsoft will be able to provide more services to the public sector. As one of the very few services providers with ISO9001 certification of application design and development, and with its Component Based Development (CBD) Methodology roll-out for the HKSAR Government completed in January 2002, Topsoft stands in a good position to be of effective service to those departments with which it maintains ongoing relationships.

“As one of the very few **ISO9001** accredited **software providers** in Hong Kong, **Topsoft** is well positioned to benefit from Government's policy to increase **outsourcing**.”



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Despite what we anticipate will be a tough year for the private sector, we have confidence that Topsoft can maintain a stable revenue stream from the customers it currently services. Meanwhile, further to its plan for consolidating the existing customer base, the company's plan for new customer acquisition will be largely related to two main initiatives.

The first will govern how it further expands its customer base in the CBD arena. CBD is a concept much in demand at present. Topsoft is developing its product, the Application Conductor, to provide an environment in which developers can practice CBD and develop their applications at the same time. The target customers are those with a substantial in-house development team. The product will be rolled out in early second quarter.

The second initiative is related to the partnership with associate company DMX Technologies in offering both software and network solutions to its customers. The joint effort will not only allow the company to bid for projects for which it was previously unable to bid, but also greatly increase the average size of the projects it can undertake.

### ADT

Advanced Digital Technology (ADT) is a 55%-owned subsidiary of the TVH Group. It develops and provides advanced systems-integration and software solutions for the banking and finance sector in China.

In 2001, ADT won a RMB 40-million network contract from the Jilin branch of the Industrial and Commercial Bank of China (ICBC) and a US\$2-million contract from the bank's Shandong branch. ICBC has also appointed ADT as service provider for its terminal system. On top of that, the company clinched a RMB 22-million contract from Huaxia Bank for CRM solutions.

ADT's main focus is the banking and finance sector. As such, the company needs to constantly sharpen its technological edge by developing complementary software products catering to this market segment. In 2001, the company developed and registered 16 software tools and applications, including Sunrise, a financial terminal platform, Starring, a payment agent platform, e-SWITCH, an access system, and NOVA, an Internet/Intranet applications platform. These solutions have already been successfully deployed by ICBC, CCB and other commercial banks. The company is actively promoting their applications to the State Statistical Bureau and the State Drugs Bureau.

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“ADT owns one of the largest and most experienced banking systems integration teams in China.”

China continues to be ADT's largest market, but the company has also moved into the export of its software products, initially to Japan. The year 2002 will continue to witness the company's active development of overseas market opportunities. During the year, ADT was also appointed an authorized dealer of BEA.

2001 was a banner year in ADT's corporate development. During the year, the company obtained ISO9000 quality accreditation and undertook further research and development of call-center solutions to assure future growth capabilities. Based in Beijing, ADT has established a strong foothold in northern China and, last year, the company set up its first Guangzhou office to roll out new business-development activities in China's southern provinces.

Future developments at ADT will largely follow three major directions. There will be a restructuring of ADT's business operations to better respond to ever-changing demand and market conditions. Four new divisions will be established, including: a major-clients division, to explore and develop non-commercial banking businesses; an international software co-operation division, to expand export sales; a vendor co-operation division, to strengthen relationships with international vendors; and a corporate development division, to open up and strengthen relationships with government, industry and the investing public.



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Secondly, ADT's marketing efforts will continue to be geared towards China's top four banks, but the company will also seek to tap further into the market composed of small- to medium-size banks. In addition, the company will explore new business opportunities into non-finance sectors, and will actively forge collaborations with international software vendors.

Thirdly, in order to make solid progress, ADT will continue to earmark substantial investments for research and development. Research will be made into statistical data systems, integrated credit-card operations management, support systems for account managers in banking, and banking operations analysis, as well as the Starring 2.0 front-office operations platform and financial peripherals.

### DMX Technologies

TVH acquired 51% interests of DMX Technologies in January 2001. Despite difficult economic conditions, the company achieved its profit target for the year. The acquisition provides the Group with the opportunity to extend its geographical coverage, as well as technology solutions and skills in the provision of networking infrastructure and network security.

DMX Technologies represents a new breed of systems architects for Asia's digital economy. The company specialises in broadband network infrastructure, network and other backbone security and e-business solutions, helping to transform traditional telecommunications infrastructures into Internet-based architectures and migrate enterprise traditional systems to the digital era.



“DMX Technologies helps telecoms service providers and enterprises in Asia build their next-generation systems.”

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DMX Technologies commenced its business in Hong Kong, and during the year has expanded into China and Malaysia. In China, the company has set up six offices in Beijing, Guangzhou, Fuzhou, Hangzhou, Shanghai and Xian. The Malaysian subsidiary was established in Kuala Lumpur in early 2001.

Year 2001 saw the proliferation of broadband services in metropolitan areas of China. DMX Technologies has provided metropolitan area network infrastructures for various telecommunications and CATV service providers in China, such as Suzhou CATV, and Ningbo and Fujian PTT.

In Malaysia, DMX Technologies worked with a strategic partner to provide a country-wide Internet access infrastructure using remote-access servers and backbone routers to a large service provider in Malaysia. This project is expected to be implemented over 3 years.

DMX Technologies continues to secure networking and security software business in Hong Kong. Some of the major customers in Hong Kong were Diyixian, Hewlett Packard, PCCW, Hong Kong Polytechnic University, Automated Systems and Eagle Star Insurance.

DMX Technologies adopts a total approach to networking solutions. It has branded its unique solutions under the trade names of D-Net, D-Secure and D-Soft. To complement its own unique offerings, the company has partnered with a string of best-of-breed vendors such as Juniper, Top Layer, Protegrity, Contrend, Infolibria, Nettekling, Cosine and RouterD in the development of new IP-based broadband network infrastructure, multi-media streaming, content delivery and distribution and secure network solutions.

With China's accession to the WTO and recovering economic conditions in Malaysia, DMX Technologies aims to further grow its business in these countries. At the same time, the company also aims to further expand its operations during 2002. Specifically, DMX Technologies plans to enter Singapore market directly, and looks into South Korea and Thailand markets through joint ventures or acquisitions.

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### ChinaCast

The year 2001 saw China's telecommunications sector adjust, consolidate and create its own élite — a cadre of operators that has survived recent market turbulence and now dominates the landscape of tomorrow.



“ChinaCast pioneered satellite multi-media broadcasting in China, an advantage it is leveraging to build the country's largest online distance-learning network.”

During the year, ChinaCast made significant progress on a number of business fronts. Turbo163 became the largest satellite-based Internet service provider (ISP) in the country. Distance learning is the company's key business focus, and in this arena, ChinaCast has developed a comprehensive programme encompassing tertiary, fundamental, IT certification, and professional education through alliances with recognized institutions in the country.

In tertiary education, ChinaCast has established joint programmes with Peking University, Beijing Medical University, Beijing Aerospace and Aviation University, Southwest Education Institute, and Shaanxi Education Institute. In fundamental education, the company's partners include Clever Net (SSEA: Kelihua), the country's largest distance-learning software and content provider, and the Central Education Science Research Institute. These alliances have connected ChinaCast to the vast pool of primary and secondary education resources in China. In 2001, the company signed up with the Hunan Bureau of Education for the provision of online education to 10,000 schools in the province.

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ChinaCast has pioneered the deployment of satellite broadcasting in distance learning in China. The company's active participation in the development of online education has helped it successfully construct a commercially viable business model.

ChinaCast has also continued to upgrade the reliability and quality of its existing delivery system. ChinaCast now commands DirecPC, PES and Harmonic satellite technologies and is capable of providing one-way, two-way and cable satellite broadcast services on the backbone of its distance-learning, cable television broadcast and broadband multi-media broadcast and management platforms.

In 2001, ChinaCast focused on developing distance learning and content delivery businesses. Over 10,000 terminals have been delivered in the year.

ChinaCast looks forward to 2002 with full confidence, and expects to maintain its leadership position in satellite broadband delivery in China, while tapping into new business fronts. The targets set for 2002 include bringing 15 universities, 300 classrooms, 20,000 students, and 15,000 primary and secondary schools in five provinces online. It also aims to establish over 200 franchised IT-certification training programmes and to work jointly with a leading protocol company to build a Web-based distance-learning supplementary system.

Two-way satellite broadcasts will be another area of active development for ChinaCast in 2002. The company anticipates breakthrough developments this year and is currently working on solutions for a number of logistics and lottery sites.

TVH holds a 19.9% interest in ChinaCast, and represents a long-term investment for the group in IT incubation projects. Management believes ChinaCast will offer TVH shareholders an opportunity to take part in nascent markets that can provide explosive growth and profitability potential.

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### LIQUIDITY AND FINANCIAL RESOURCES

#### Net assets

As at 31 December 2001, the Group recorded total assets of approximately HK\$537,653,000 which were financed by liabilities of approximately HK\$239,834,000 and equity of approximately HK\$245,747,000. The Group's net asset value as at 31 December 2001 decreased by 27% to approximately HK\$245,747,000 as compared to approximately HK\$338,852,000 (restated) as at 31 December 2000.

#### Liquidity

The Group had total cash and bank balances of approximately HK\$129,045,000 as at 31 December 2001 (2000: approximately HK\$146,454,000). After deducting bank loans and overdrafts of approximately HK\$36,917,000 (2000: approximately HK\$12,498,000), the Group recorded a net cash balance of approximately HK\$92,128,000 as compared to that of approximately HK\$133,956,000 as at 31 December 2000. As at 31 December 2001, the current ratio has been changed to 1.67 (2000: 2.95 restated) and the gearing ratio has been changed to 0.15 (2000: 0.04) with equity being defined as the total of capital and reserves.

#### Charges on assets

At 31 December 2001, fixed deposits of approximately HK\$31,936,000 (2000: HK\$15,885,000) were pledged to banks to secure banking facilities granted.

#### Treasury policies

The Group generally finances its operations with internally generated resources and credit facilities provided by banks in Hong Kong. Subsidiaries in PRC use short-term borrowing in PRC to finance working capital, which amount to HK\$10 million. Borrowing methods used by the Group mainly include trust receipt loans, overdrafts and term loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate. Both bank deposits and borrowings are mainly in Hong Kong dollars and United States dollars ("US dollars").

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### Contingent liabilities

At 31 December 2001, the Company had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to certain subsidiaries amounting to approximately HK\$31.2 million and guarantees in respect of finance lease facilities granted to certain directors of the company amounting to approximately HK\$0.3 million.

### Foreign exchange exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the US dollars remains in effect.

### Employee and remuneration policies

As at 31 December 2001, the Group employed approximately 530 full time staff in the Mainland China and Hong Kong. The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

### APPLICATION OF PROCEEDS

In September 2000, the Company received net proceeds of approximately HK\$108 million through a placement to institutional and professional investors (the "third placement"). As at 25 April 2001, the Group has utilized approximately HK\$40 million for expansion of the systems integration business in China; approximately HK\$4 million for the expansion of the software training business; and approximately HK\$58 million as working capital of the Group. As of today, the Group has utilized the remaining balance of proceeds as working capital.